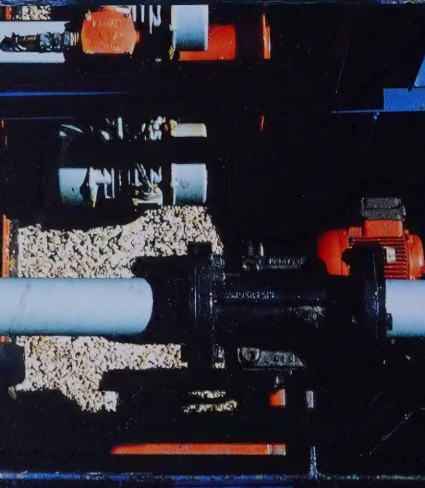
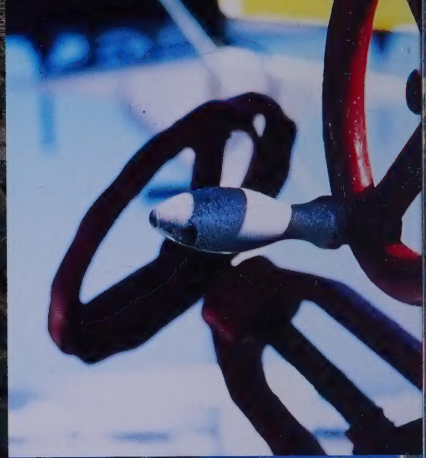


AR59



NAMCO
namibian minerals corporation

annual report '96



conte



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the year's highlights

Inferred resource of 2.6 million carats identified in Namibian Grants

Average diamond value of US\$200 per carat and size of 0.37 carat exceeded expectations

Exploration expenditure increased from C\$4.8 to C\$13 million

Fully subscribed equity issues raised

i) C\$9.1 million in March 1996 and ii) C\$17 million in June 1996

Cash holdings of C\$27 million

Applied and proved new marine technology

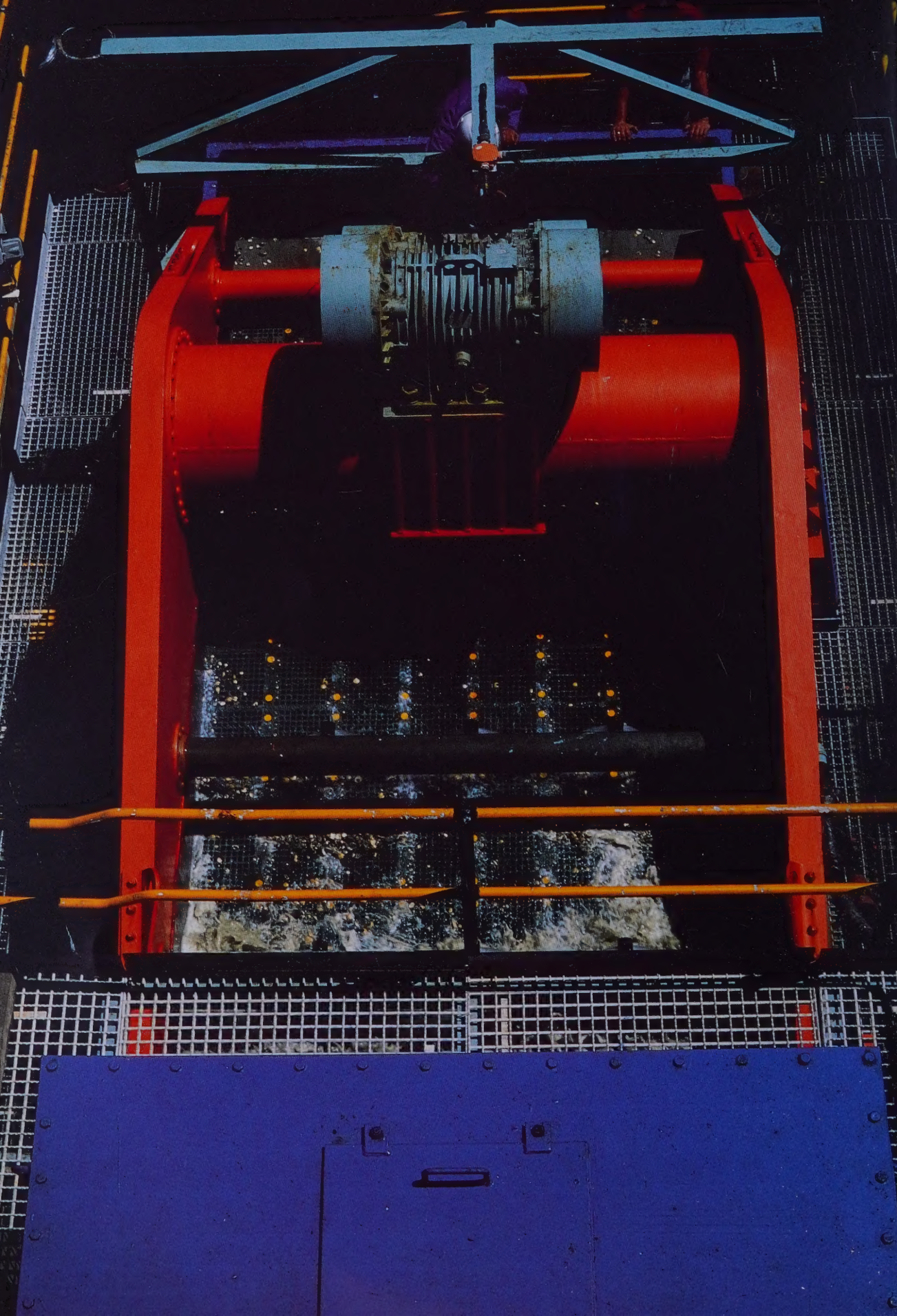
Seabed geophysical survey commissioned to test additional concession areas

Joint Venture signed with Arsan Mining (Almazy Rossii-Sakha)

Company's shares listed on The Toronto Stock Exchange

Strengthened inhouse capability with two additional Board Directors and senior technical appointments

Concession areas increased to 5 600 sq km





Alastair Holberton

Last year I wrote of the growth potential of the marine diamond industry in southern Africa and of our objective to secure a significant position as a long term gem diamond producer. Since our 1995 Report we are much closer to realising that objective. Our exploration programme has been highly successful. We developed and strengthened our management and technological resources, our financial security, our strategy and our government and community links.

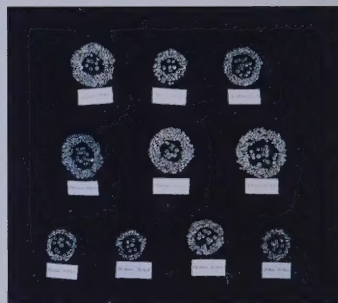
The innovative vision of our management has allowed us to identify early participation in a unique industry. We have successfully applied our strengths to give us a competitive edge in the new southern Africa. These are the key reasons we attract shareholder support and provide the basis of our continued corporate growth.

Our major development this year has been the success of our exploration programme. Close spaced sampling was adopted in mid year following exceptional results in the Koichab Prospect in our Luderitz Bay Grant.

We completed 184 samples of 10 sq. m each in the Koichab Prospect and recovered 2 956 diamonds. In the eastern valley of the Prospect three areas of 130 sq. m each were sited over a distance of 0.75km and an additional 3 161 diamonds were recovered.



chairman's review



Sample results from the Koichab Prospect

Our independent consultants reported that the 3.85 sq. km area contains an inferred resource of 2 400 000 carats of gem quality diamonds. Diamond size, grade, and value exceeded the models predicted for the area. A further 200 000 carats was reported in a small area of the Hottentot Bay Grant.

These excellent results confirm the prospectivity of the Company's concession areas. Namco 1, now at sea for over a year, continues to test additional features in the Hottentot Bay Grant where initial results are most encouraging. A C\$1 260 000 geophysical survey has commenced over 2 000 sq. km of our other Namibian and South African Concessions.

Parallel with this success has been the progression of our Mine Study Group in evaluating and recommending the preferred mining method. It is stimulating to access the array of technology and innovation available internationally. It remains our objective to commence commercial mining in 1997. We are focused on our challenge of bringing to the production phase the same advances we achieved with the Namrod during the sampling phase.

The acceleration of our Programme has resulted in exploration expenditure rising from C\$4 797 000 to C\$12 997 000 for the year ending May 31 1996.

We achieved two major capital raisings. In March we completed an issue of 2 250 000 shares for C\$9 086 700. Subsequent to the year end, we completed an issue of 2 000 000 special warrants for gross proceeds of C\$17 000 000. Cash at year end of C\$10 749 000 has been increased by the net proceeds of C\$16 100 000.

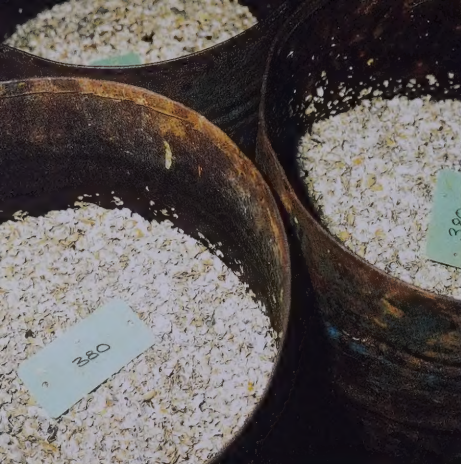
Our listing on The Toronto Stock Exchange took place on June 3 1996.





amco's Directors with Namibia's Minister of Mines Hon. Toivo ya Toivo





Our technical team has been enhanced by the appointment of Dr Marcus Waring to head our geological group and of Mr Hans Duijzers, formerly with De Beers Marine, to head engineering. These are the more senior project appointments but I wish to pay tribute to the contribution and dedication from all our people throughout the year. Their skills, enthusiasm and loyalty are greatly valued. In particular I would like to acknowledge the contribution of the Project Group whose expertise and professionalism established a significant resource in a comparatively short period.

I am pleased to welcome Mr Howard Beck and Mr Neil McDougall to our Board. I have no doubt we will benefit from their considerable experience. I also thank Ian Gray for his past participation and wish him continued success.

The development of our strong relations with Namibia remains a high priority. Our Regional Director has been appointed to the Namibian Diamond Board. We continue our policy to employ and train local personnel where possible. The Company also offers scholarships and bursaries to encourage the involvement of Namibians in the mining industry. Namibia's international profile continues to rise with the country rightly described as one of the most democratic and politically stable nations in Africa.

We are confident of the fundamentals of the gem diamond market and in particular of the high value sector as represented by Namibian product. World sales of rough diamonds by the Central Selling Organisation (CSO) reached a record US \$4.5 billion in 1995 with an 8% increase to US \$2.7 billion in the first half of 1996.

Our link with Almazy Rossii-Sakha (ARS), the world's second largest diamond producer, has significant long term potential.

Our ability to realise objectives has earned us increasing support. This ability together with the discovery of the Koichab Prospect's gem diamond deposit is enabling us to move towards the reality of commercial production.

On behalf of the Board I wish to thank our shareholders for their continued support.



J. A. Holberton

Chairman & Chief Executive Officer



introduction

The main thrust of your Company's efforts in the past year has been the sampling programme in our marine diamond areas. This programme commenced in June 1995 and has achieved considerable success. Gem quality diamonds were recovered from 14 of the 18 Features sampled in our Namibian Grants. The occurrence of diamonds in the Namibian Grants is clearly widespread.

The stated objective of the programme was to define a resource from a budget of 700 samples of 10 sq. m. each. We are pleased to report that this objective has been achieved and the Company has announced an inferred resource of 2 400 000 carats of diamonds occurring in an area of 3.85 sq. km in the Koichab Prospect in the Luderitz Bay Grant, Namibia. In June this resource was upgraded to 2 600 000 carats to include parts of the Saddle Hill Prospect, Hottentot Bay Grant.

Seven prospective Features were identified for follow up sampling. Of these, four are located in the Luderitz Bay Grant and three in the Hottentot Bay Grant.

results

Original priority areas for the sampling programme were the Hottentot Bay and Luderitz Bay Grants in Namibia and the 12b Concession in South Africa. The overall sampling strategy as presented in the previous report was adopted:

initial sampling - widely spaced samples to establish the presence of diamonds in various geological features (palaeo shore lines, palaeo channels, aeolian transport corridors, basins, depressions, southerly facing bays)

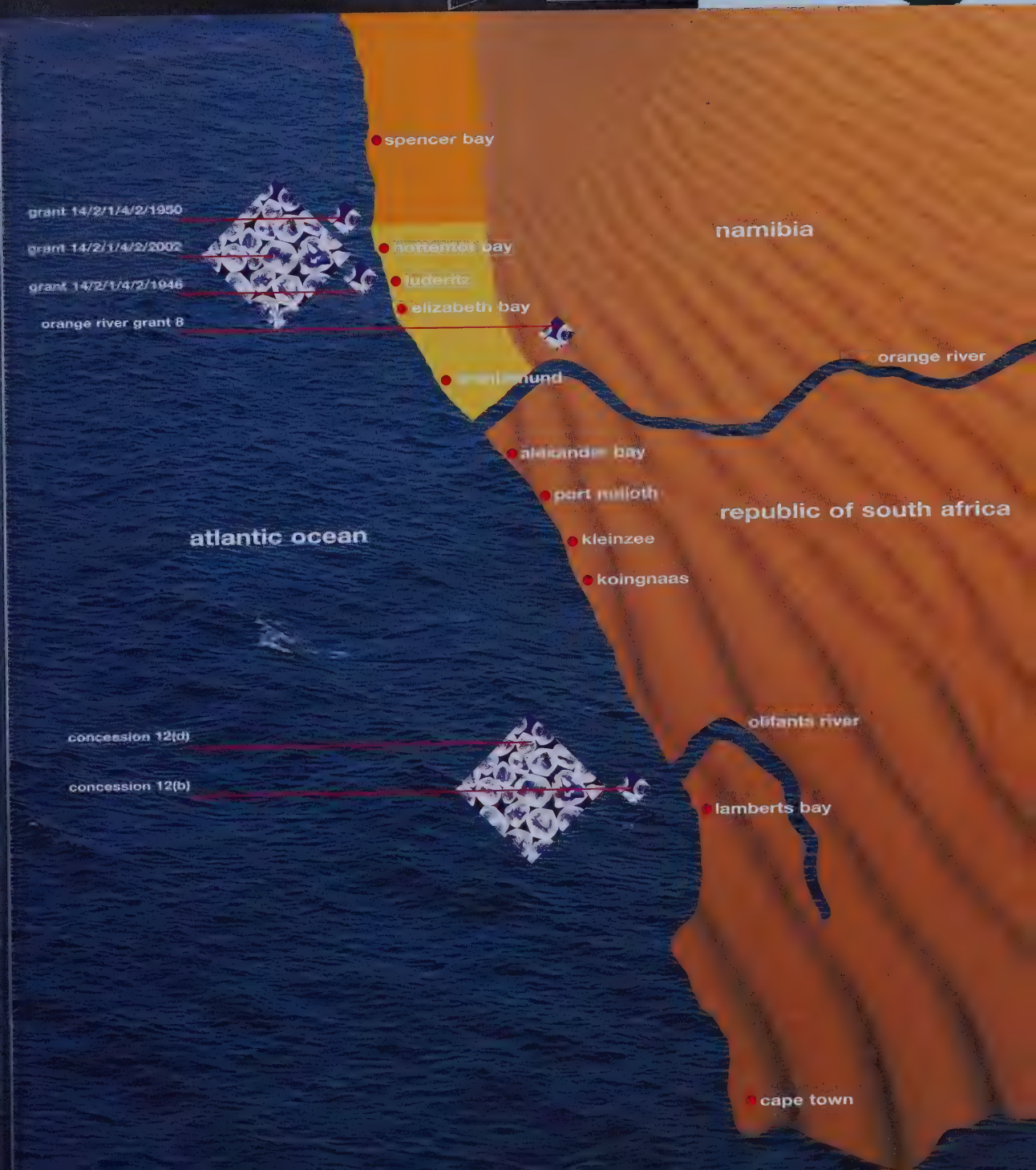
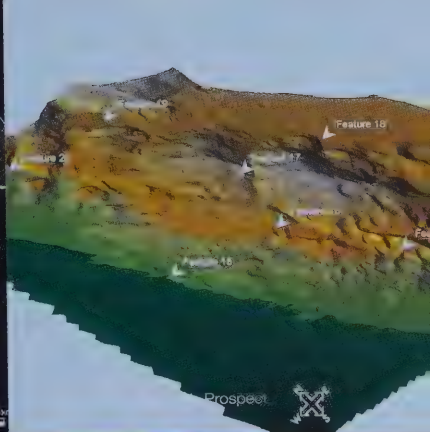
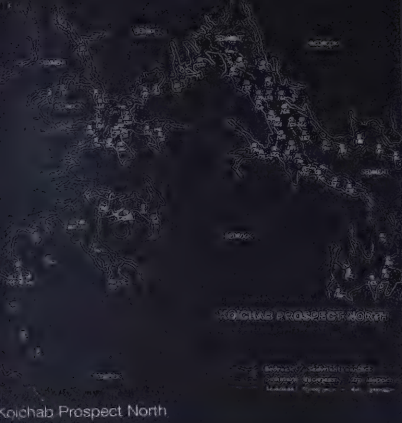
secondary sampling - in areas of proven diamond presence to verify the nature and broad extent of mineralised areas

valuation sampling - closely spaced samples for grade determination and mine planning purposes

Sampling commenced in mid June 1995. An increased number of Initial sites was selected in the Koichab Prospect following interpretation of the 1994 sea bed survey data.

During Initial sampling of the Koichab North Prospect five sites yielded exceptional recoveries (15 or more diamonds). This led to the postponement of the Initial sampling phase in the remaining areas of the Luderitz Bay Grant, Hottentot Bay Grant and 12b Concession and to the immediate initiation of Secondary followed by Valuation sampling. Some 184 samples were taken in Features 019 and 020 of the Koichab North Prospect, enabling the establishment of the inferred resource of 2 400 000 carats in the area.







Three larger samples of approximately 130 sq. m each were also excavated in Feature 019 in the Koichab north area to investigate detailed diamond distribution and grade, to study detailed geological variation and for trial mining purposes. They were evenly sited over a horizontal distance of 0.75 km in areas indicated from original sampling to be high (BSI), medium (BSII) and low grade (BSIII). These samples returned significantly higher grades than originally indicated.

	no. of diamonds	total carats	total vol/m ³	carats /m ²	carats /100t
BSI	1 627	591.71	415.52	4.55	79.11
BSII	1 198	442.99	497.40	3.41	49.48
BSIII	336	124.94	618.15	0.96	11.23

Initial sampling has since continued in other areas of the Luderitz Bay Grant, Hottentot Bay Grant and 12b Concession.

A total of 638 samples including 37 aborted (mechanical problems) or deferred (geological problems) were excavated during the year with 356 situated in the Luderitz Bay Grant, 252 in the Hottentot Bay Grant and 30 in the 12b Concession.

Some 6 362 stones weighing 2340.01 carats (average size of 0.37 carats/stone) have been recovered during sampling operations with the majority from the Luderitz Bay Grant. 95% of the diamonds are of gem quality and independent valuations of the diamonds range from US \$190 to US \$262 (average US \$200) for the Namibian diamonds and US \$377 for a small (46 carat) parcel of 12b Concession diamonds.

technical

The 38 tonne remotely operated Namrod sampling tool developed in partnership with Royal Boskalis Westminster N.V is designed to operate in water depths up to 120m. It clears an area up to 10 sq. m down to bedrock through a maximum sediment pile of 4m thickness and can handle the full size spectrum of boulders, cobbles, gravel, sand, silt and mud. Underwater screening is an integral part of the system and only the minus 50 mm fraction is pumped to the surface.

The tool has proved to be precise and supplied excellent results during the Secondary and Valuation Sampling phases. However, overall sampling progress was slower than anticipated mainly due to technical difficulties associated with weather and sea conditions causing launch and recovery problems of the sampling tool. These were rectified.

The vessel has generally operated well. Two periods of downtime (including dry docking) totalling 24 days were required during the year to repair the Dynamic Positioning thrusters.

The Company has undertaken extensive investigation into the various available mining options. Study groups have been set up to analyse and combine geological parameters determined from the sampling programme with marine and dredging engineering aspects. Consulting mining engineers Steffen, Robertson and Kirsten of the UK have been retained to undertake technical audits in this regard.

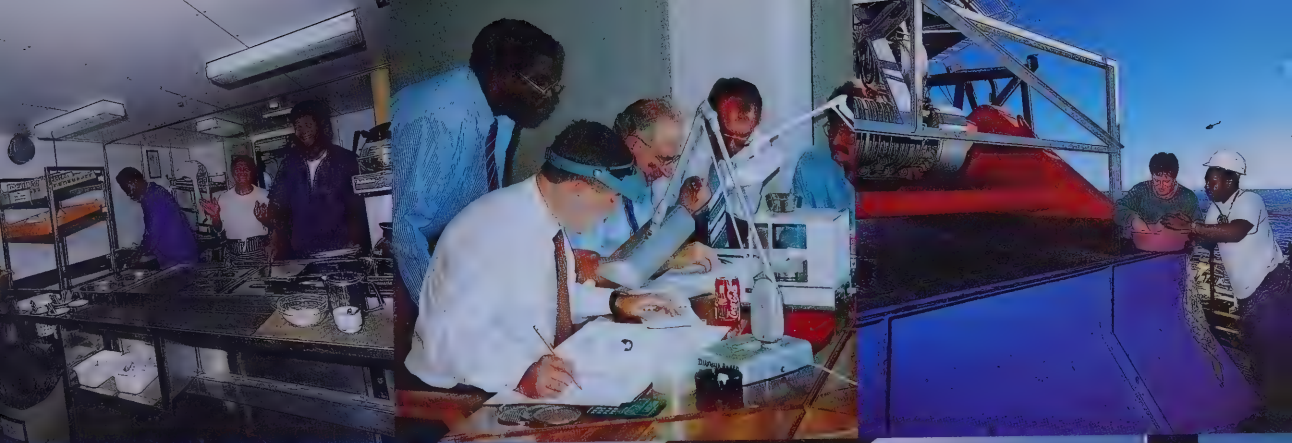
The Company intends to commence commercial production in 1997 with initial operations centred in the Koichab North Prospect. Application to the Namibian authorities for a mining licence in this area is being prepared which includes an Environmental Impact Report. The latter report is progressing per schedule. As an indication of the Company's concern and commitment to the environment we are progressing towards certification in terms of the International Standard ISO 14000.

personnel

As a result of your Company's ongoing progress its inhouse personnel is continually being upgraded and additional managerial, financial, engineering, geological and other technical personnel have joined the permanent staff mainly in the Cape Town and Windhoek offices.

The sampling vessel has a highly motivated, fully integrated cosmopolitan and multi disciplined complement of approximately 50 people. Namco remains committed to the Health and Safety of its employees and this forms an integral part of the ISO 14000 certification mentioned above. It also continues its policy and commitment to employ and train local personnel.







new concessions

During the year the Company was awarded the prospecting rights over 12d Concession off the coast of South Africa. This concession covers an area of approximately 3 500 sq. km and water depths vary between 200m and 500m.

sea bed mapping and survey

Racal Survey was awarded a C\$1 260 000 contract to undertake sea bed geophysical and limited sampling (vibrocore) surveys in three of the Company's concession areas:

- EPL 2002 Grant, Namibia, contiguous with the western boundary of the Hottentot Bay Grant and extending to approximately 200m water depth - regional and detailed (in selected areas) survey combining side scan sonar, seismic profiling (mini gun and chirp) and bathymetry with follow up coring.
- Koichab North area, Luderitz Bay Grant, Namibia - detailed survey and follow up coring in the identified initial mining areas as required for detailed mine planning purposes.
- 12d Concession, South Africa - regional and detailed survey and coring as for EPL 2002 Grant above.

Work commenced at the end of May 1996 in EPL 2002 Grant.

orange river grant

Bulk sampling was conducted during the past year in the area held by the Company (Block 8) on the north side of the Orange River in Namibia. A trench was excavated across a palaeo channel indicated from an earlier geophysical survey. Two gravel horizons were selected as potentially diamond bearing and following screening two samples of approximately 1 000 tonnes each were processed. No diamonds were recovered. Apart from the rehabilitation commitment, no further work is planned for the area.

almazay rossii-sakha

Your Company concluded wide ranging agreements with Arsan Mining (Pty) Ltd. (Arsan Mining), the vehicle for ARS's interests in Namibia. ARS is the world's second largest diamond producer and is responsible for 98% of current Russian diamond production. Areas of joint co-operation are:

- Feasibility study for the establishment of a diamond cutting and polishing factory in Namibia
- Exploration for onshore kimberlites in Namibia
- Evaluation and participation in Russian mineral projects

On the basis of this year's achievement and the ongoing positive results from our programme I am confident the resource base will continue to expand as we move to production status in 1997.



Roger Daniel
Project Director



Management's discussion should be read in conjunction with the Chairman's Review, the Project Review and the Company's audited consolidated financial statements for the year ended May 31 1996 and related notes.

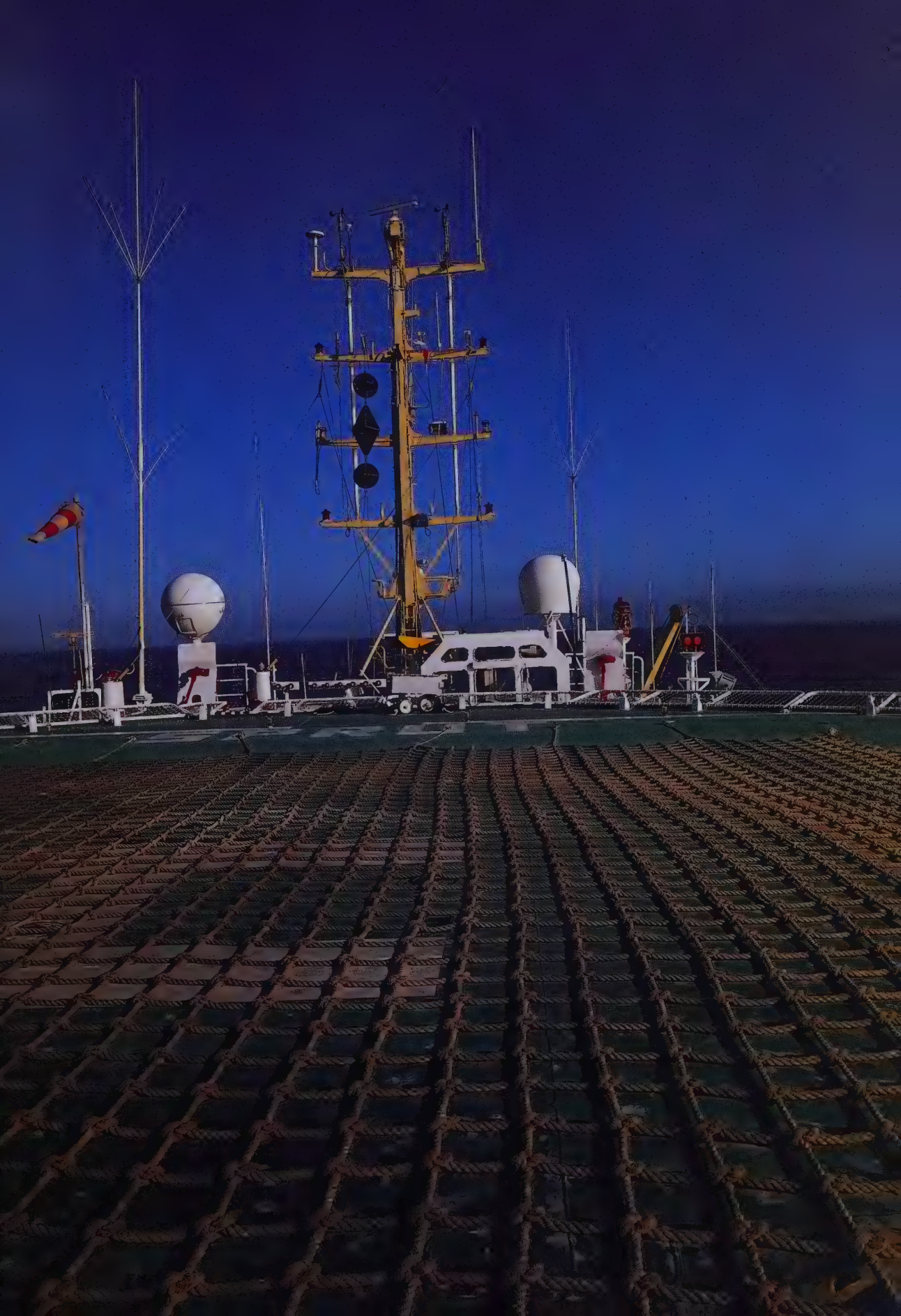
general The Company's principal activity in the year was marine diamond exploration off the coasts of Namibia and South Africa. In June 1995, the Company commenced bulk sampling in the Hottentot Bay and Luderitz Bay Grants off the coast of Namibia and in the 12b Concession off the coast of South Africa. This has proved successful in locating an inferred resource of 2 600 000 carats of gem quality diamonds in parts of the Namibian Grants. The bulk sampling programme is ongoing and mining is planned to commence in 1997. In May 1996, the Company announced a number of joint ventures with Arsan Mining. This included establishing a diamond cutting and polishing factory in Namibia, joint exploration in Namibia and the evaluation of and participation in mineral projects in Russia.

liquidity and capital resources The Company completed two private placements of 2 250 000 shares during the year which generated proceeds of C\$9 086 700. In addition the Company received C\$375 887 on the exercise of 236 633 stock options. Subsequent to year end the Company completed the placement of 2 000 000 special warrants issued at C\$8.50 each. Net proceeds of approximately C\$16 100 000 were received in June 1996. Each special warrant is exercisable into one unit consisting of one common share and one half common share purchase warrant. The warrants are exercisable at C\$11.00 per share and expire in June 1997.

Net proceeds from the exercise of the common share purchase warrants would be C\$11 000 000. Stock options over 601 250 shares with exercise prices of C\$1.00 and C\$1.76 per share are set to expire in the next twelve months, but if exercised would raise an additional C\$696 250. Dependent on the total capital expenditure and working capital requirements for the mining phase which are currently under detailed review and finalisation of appropriate agreements with suppliers and operators, further fund raising from shareholders may be required. It is estimated that the funding requirements for the joint ventures with Arsan Mining will not exceed C\$3 000 000 in the current year.

The Company reports in Canadian dollars but its main operating currencies are United States dollars, Great Britain pounds, South African rand and Namibian dollars. Surplus funds are kept on short term deposits (less than three months) and normally in one of the main operating currencies. In certain instances, when it is considered that there are specific advantages and the risk in doing so is limited, surplus funds are held in other major currencies. The Company will also invest a limited proportion of surplus funds in either marketable securities or longer term investments.







operating results

The consolidated loss for the year was C\$1 651 000 (1995: C\$792 000) or C\$0.06 (1995: C\$0.04) per share. Income increased by 9.5% to C\$1 559 000 (1995: C\$1 424 000) with reduced interest income being more than offset by increased gains on short term investments. Total expenses were C\$3 210 000 (1995: C\$2 216 000). The increase results from a full year's amortization charge on capital assets acquired during the previous year, significant costs being incurred in conjunction with the fund raisings undertaken, such as the investors trip in February 1996 and the listing on The Toronto Stock Exchange, and the build up of inhouse resources principally at the Company's Cape Town offices.

Resource property costs capitalised in the year were C\$12 997 000 (1995: C\$4 797 000), of which the major element was direct costs related to the bulk sampling programme. The principal costs within the bulk sampling operation were the charter of the vessel, Namco 1, and payments to Boskalis Zinkcon b.v., operators of the Namrod, the bulk sampling tool. Since December 31 1995 Boskalis has not been due any rental until completion of 700 samples.

risks

The Company's operations are subject to a number of significant and ongoing risks.

All of the Company's operations are outside of Canada. As the Company reports in Canadian dollars, the operations may be subject to foreign exchange gains or losses. In the year ended May 31 1996, the cumulative foreign exchange adjustment as detailed on the Consolidated Balance Sheet shows a deficit of C\$1 020 000 (1995: surplus of C\$2 000). The principal cause of the deficit was the depreciation by 20% of the South African rand and Namibian dollar in the last four months of the financial year against the US\$ and C\$.

Both Namibia and South Africa are members of the Common Monetary Area ('CMA'). Exchange control restricts the flow of funds to countries outside the CMA. Political and economic risk is considered to be low.

Large scale marine diamond mining technology and the understanding of alluvial diamond distribution are still in the early stages of development. The Company is reviewing production technology and methods in collaboration with its mining engineering consultants. Budgets and planned commencement dates remain subject to review. The Company is intent on a fast track approach to production. The Company has yet to complete its Environmental Impact Assessment Reports and to obtain a Mining Licence. The Company is confident the necessary requirements will be met.

Future revenues will be subject to prevailing diamond prices. The Company plans finalisation of its marketing strategy in 1997.





report

of management

The accompanying consolidated financial statements and all of the data included in this annual report have been prepared by and are the responsibility of the management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimate and judgments based on currently available information. The Company has developed and maintains systems of internal accounting controls in order to assure, on a reasonable and cost-effective basis, the reliability of its financial information, and that the assets are safeguarded from loss.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board which has to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval. The Company's external auditors have full and unrestricted access to the Audit Committee.

The consolidated financial statements have been audited by Deloitte & Touche, Chartered Accountants. The report outlines the scope of their examination and opinion on the consolidated financial statements.

London, England
July 12 1996

J. A. Holberton
Chairman, Chief Executive Officer and Director

J. C. F. Purdy
Chief Financial Officer and Director



consolidated

balance sheet

as at 31st May Canadian funds

Statement 1

		1996 \$000	1995 \$000
assets			
(statement 4) Current	Cash and short term investments	10,749	15,552
	Accounts receivable and prepayments	311	317
(note 4)	Marketable securities	448	338
(statement 3, note 5)	Resource property costs	21,064	8,067
(note 6)	Capital assets, net of amortization	2,514	3,226
	Goodwill, net of amortization	116	132
	Investments	50	150
		35,252	27,782
liabilities			
	Current Accounts payable and accrued liabilities	1,267	587
shareholders' equity			
(note 7)	Share capital	39,079	29,616
(note 8)	Contributed surplus	633	633
	Cumulative foreign exchange adjustment	(1,020)	2
(statement 2)	Deficit	(4,707)	(3,056)
		33,985	27,195
		35,252	27,782
On behalf of the board:			
	J A Holberton	J C F Purdy	
	Chairman, Chief Executive	Chief Financial Officer	
	Officer and Director	and Director	July 12 1996



consolidated

statement of loss and deficit

for the year ended 31st May *Canadian funds*
Statement 2

	1996 \$000	1995 \$000
income		
Interest received	863	1,224
Gain on short term investments	696	200
	1,559	1,424
expenses		
Amortization - capital assets	488	105
- goodwill	16	16
Management and consulting fees	151	315
Office costs	743	502
Professional fees	286	245
Salaries and benefits	669	492
Travel and promotional	857	541
	3,210	2,216
Loss for the year	(1,651)	(792)
Deficit - beginning of year	(3,056)	(2,264)
deficit - end of year	(4,707)	(3,056)
	1996 \$	1995 \$
basic loss per share for year	(0.06)	(0.04)



consolidated

statement of resource property costs

for the year ended 31st May *Canadian funds*

Statement 3

	1996	1995
	\$000	\$000
costs for the year		
Survey	7	134
Bulk sampling	11,595	4,120
Salaries and benefits	666	366
Lease cost	-	32
Travel and accommodation	240	145
General operating costs	496	-
	12,997	4,797
Balance - beginning of year	8,067	3,270
balance - end of year	21,064	8,067



consolidated

statement of changes in financial position

for the year ended 31st May *Canadian funds*
Statement 4

	1996 \$000	1995 \$000
cash resources provided by		
(used in) operating activities		
Loss for the year	(1,651)	(792)
Items not affecting cash		
Amortization - capital assets	488	105
- goodwill	16	16
Gain on marketable securities	(696)	(200)
Changes in non-cash working capital	1,061	(695)
	(782)	(1,566)
investing activities		
Resource property costs	(12,997)	(4,797)
Capital assets	(161)	(2,122)
Foreign exchange adjustment	(1,022)	(133)
Marketable securities	596	73
Investments	100	(150)
	(13,484)	(7,129)
financing activities		
Share capital	9,463	11,685
	9,463	11,685
net increase/ (decrease) in cash	(4,803)	2,990
Cash position – beginning of year	15,552	12,562
cash position – end of year	10,749	15,552



notes to the
consolidated
financial statements
as at 31st May *Canadian funds*

1. description of the business

The Company, through its subsidiaries, is principally engaged in marine diamond exploration and mining off the coasts of Namibia and South Africa.

2. directors

The directors of the Company as at the date of signing the consolidated balance sheet are as follows:

J. A. Holberton
J. C. F. Purdy
H.L. Beck
C. Civelli
N. G. McDougall

3. significant accounting policies

a)

Consolidation

These financial statements include the accounts of the Company and its subsidiaries (wholly owned unless indicated otherwise) ("the Group") as follows:

- St. James's Minerals Ltd, Canada
- Namco B.V., Netherlands
- Namibian Minerals Corporation Limited, Gibraltar and its subsidiaries:
 - Arena Mining (Pty.) Limited, Republic of Namibia
 - Gariep Diamond Exploration (Pty.) Limited, Republic of Namibia
 - Guinas Mining (Pty) Limited (80% owned), Republic of Namibia
 - Namco Properties (Pty.) Limited, Republic of Namibia
 - Nautical Diamonds (Pty.) Limited, South Africa
 - N.D. Charterers (Pty.) Ltd, South Africa
 - Pinette Investments (Pty.) Limited, South Africa
 - Namibian Minerals Corporation Limited, United Kingdom
 - Namco (Charterers) Limited, Gibraltar

b)

Amortization

The Group provides for amortization on the following basis:

Goodwill - straight-line over 10 years
Buildings - straight-line over 40 years
Furniture & office equipment - straight-line over 3 to 6 years
Leasehold improvements - straight-line over 5 years
Motor vehicles - straight-line over 3 to 5 years
Plant and machinery - straight-line over 4 years



notes to the
consolidated
financial statements
as at 31st May *Canadian funds*

c) Resource property costs

The Group is in the process of exploring its mineral properties (as detailed in note 5).

Exploration and development costs are capitalized on an individual prospect basis until such time as an economic reserve is defined and mining is commenced or the mineral property abandoned.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically viable reserves and the ability to obtain the necessary financing to complete the developments.

Capitalized costs will be amortized subsequent to commercial production on a unit-of-production basis over the estimated reserves.

d) Foreign currency translation

Financial statements of the Company's foreign operations are translated using the current rate method. Adjustments arising from this translation are deferred and recorded under a separate caption of Shareholders' Equity and are included in income only when a reduction in the investment in these foreign operations is realized.

e) Marketable securities

Marketable securities are carried at the lower of cost or market value.

f) Investments

Investments are carried at cost unless in the opinion of the directors there has been a permanent impairment in value. At such time the value of the investment is written down to net realizable value.

g) Sampling stock

Recoveries of diamonds from the bulk sampling programme are valued at nil. On sale to third parties, income received, net of all selling costs, is credited against resource property costs.



notes to the consolidated

financial statements

as at 31st May *Canadian funds*

4. marketable securities

The mid-market quoted value of the marketable securities as at May 31 1996 was \$715,000 (1995: \$853,000).

5. resource property costs

The Group holds the rights as specified on the following mineral properties:

concession/grant	description	type of licence
14/2/1/4/2/1946 (Namibia)	Luderitz Bay Grant	Diamond prospecting rights
14/2/1/4/2/1950 (Namibia)	Hottentot Bay Grant	Diamond prospecting rights
14/2/1/4/2/2002 (Namibia)	EPL 2002 Grant	Diamond and phosphorite prospecting rights
Block 8, Orange River (Namibia)	Orange River Grant	Diamond prospecting rights
12b (South Africa)	12b Concession	Precious stones prospecting rights
12d (South Africa)	12d Concession	Precious stones prospecting rights

The 12b Concession was transferred in May 1993 for Rand 200,000. Certain data, information and records were acquired for Rand 800,000 (total consideration \$315,000). All other grant and concession areas were obtained directly from the relevant government, on payment of the appropriate application fee.

The survey of the Hottentot Bay Grant, the Luderitz Bay Grant and the 12b Concession was completed in March 1994. In June 1995, bulk sampling of these three areas commenced. This is being undertaken on behalf of the Group by Boskalis Zinkcon b.v, part of the Royal Boskalis Westminster N.V. Group. The bulk sampling programme is on going. As at May 31 1996, the Group was committed to further payments on the bulk sampling programme of \$842,000 and the market value of sampling stock was \$540,000.

In May 1996, the survey of the 12d Concession and the EPL 2002 Grant commenced. The survey is being undertaken by Racal Survey Ltd and is expected to last 60 days at a total cost of £600,000 (\$1,260,000).



notes to the
consolidated
financial statements
as at 31st May *Canadian funds*

Resource property costs to date are split as follows:

	1996	1995
concession/grant	\$000	\$000
12b	3,575	2,720
Hottentot Bay	7,293	3,547
Luderitz Bay	10,196	1,800
	21,064	8,067

6. capital assets

The major categories of property and equipment and related accumulated amortization as at May 31 are as follows:

	1996	1996	1996	1995
	\$000	\$000	\$000	\$000
	cost	accumulated amortization	net book value	net book value
Furniture & office equipment	571	194	377	599
Land & buildings	1,260	26	1,234	1,495
Leasehold improvements	106	51	55	75
Motor vehicles	172	69	103	143
Plant and machinery	994	249	745	914
	3,103	589	2,514	3,226



notes to the consolidated financial statements

as at 31st May *Canadian funds*

7. share capital

a) Details are as follows:

	authorised common shares without par value	issued and fully paid	amount
Balance as at 31st May 1994	100,000,000	18,293,126	\$17,930,748
Exercise of warrants	-	3,210,001	3,370,501
Private Placement (i)	-	2,254,300)	8,277,194
Public Offer (i)	-	183,500)	
Exercise of options	-	37,500	37,500
Balance as at 31st May 1995	100,000,000	23,978,427	\$29,615,943
Exercise of options	-	236,633	375,887
Private Placement (ii)	-	1,750,000	7,000,000
Acquisition of subsidiaries (iii)	-	2,337,500	-
Private Placement (iv)	-	500,000	2,086,700
Balance as at 31st May 1996	100,000,000	28,802,560	\$39,078,530

(i) The private placement and public offer took place in conjunction with the dual listing of the Company on the Namibian Stock Exchange on September 29 1994. The shares were issued at N\$9.25 (\$3.48). Gross proceeds were \$8,481,172 (costs of placement were \$203,978).

(ii) The private placement was completed in February 1996. Gross proceeds were \$7,000,000 (costs of placement were nil).

(iii) Issued in accordance with the terms of the reverse takeover (see note 7c) on completion of \$10,000,000 exploration and development programme.

(iv) The private placement was completed in March 1996 on the Namibian Stock Exchange at a price of N\$11.40 (\$4.30) per share. Gross proceeds were \$2,150,000 (costs of placement were \$63,300).



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(b) Options granted and outstanding:

number of options granted	expiry date	exercise price \$
476,250	4th October 1996	1.00
100,000	24th October 1996	1.76
25,000	4th May 1997	1.76
16,667	10th October 1997	2.30
20,000	23rd October 1997	2.15
60,000	11th December 1997	1.31
30,000	25th January 1998	1.35
16,700	18th March 1998	1.37
10,000	5th July 1998	2.20
50,000	12th July 1998	2.10
325,000	1st November 1998	1.44
15,000	22nd November 1998	1.36
15,000	14th December 1998	1.92
1,230,000	2nd April 2001	5.56
150,000	20th May 1999	9.00
315,000	28th May 1999	9.00
2,854,617		
	1996	1995
Outstanding at the beginning of year	1,066,250	1,083,750
Granted	2,110,000	245,000
Exercised	(236,633)	(37,500)
Expired	(85,000)	(225,000)
Outstanding at the end of year	2,854,617	1,066,250

c) A total of 2,200,000 shares are reserved for issuance as part of the reverse takeover which was completed on October 19 1993, and through which the Company acquired 100% of the issued outstanding shares of Namibian Minerals Corporation Limited, Gibraltar. The shares will be issued on receipt of regulatory approval of a feasibility study.



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8. contributed surplus

The contributed surplus represents funds received from the shareholders of Namibian Minerals Corporation Limited, Gibraltar, prior to the reverse takeover as capital contribution towards development costs.

9. commitments

Commitments are reflected elsewhere in these financial statements except as follows:

- a) The Company, through its wholly owned UK subsidiary, is committed to rental payments of £26,500 per annum for the London office until June 1998 inclusive.
- b) The Company, through its wholly owned South African subsidiary, Nautical Diamonds (Proprietary) Limited is committed to rental payments of R10,000 per month for the Cape Town office until January 31 1998 inclusive.

10. income taxes

The Competent Authorities of Revenue Canada and the United Kingdom Inland Revenue have determined that as from the date of the reverse takeover, October 19 1993, the Company's tax residency moved from Canada to the United Kingdom.

In South Africa and Namibia, the Group has income tax losses of not less than \$3,000,000 available to reduce future taxable income.

In Canada and the United Kingdom there are tax losses to carry forward. The losses in Canada of approximately \$500,000 are allowable only against future Canadian operations and the losses in the UK are not material.

The benefit of these losses have not been recognised in these consolidated financial statements.

11. litigation

In 1992, Namibian Minerals Corporation Limited, Gibraltar ("Namco-Gibraltar"), commenced a Supreme Court Action in South Africa, against Benguela Concessions Limited ("Benco"), and John Wilson (a director of Benco), for US\$72,600,000 stemming from an alleged breach of contract by Benco. Namco-Gibraltar's action claimed that a binding contract was entered into between Namco-Gibraltar and Benco in 1992 pertaining to certain offshore diamond concessions to which Benco held an interest; and that Benco breached such agreement by refusing to complete the same. Benco initially denied that the agreement had been signed by John Wilson. On May 23 1994, the court held that John Wilson had signed the contract, but upheld the subsidiary defence that the contract was unenforceable as certain terms were void for vagueness.



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Namco-Gibraltar brought an application for leave to appeal against this judgement which was heard on August 2 1994. It was held that there was a reasonable prospect that Namco-Gibraltar would succeed on appeal and gave Namco-Gibraltar leave to appeal to the Appellate Division.

Namco-Gibraltar is to continue the action against Benco for US\$72,600,000. As at May 31 1996, costs of \$440,000 have been expensed. The maximum costs of continuing the appeal are estimated at approximately \$250,000. It is likely that the appeal will be heard in the fourth quarter of 1996.

A claim has been made on the Company and other defendants by a former consultant to the Group. The claim is that in 1992, Namibian Minerals Corporation agreed to issue 1,000 shares to the former consultant which would be held in trust by one of the co-defendants in the matter. The former consultant's claim is for shares, which he claims would have increased to 1,000,000 shares as a result of the restructuring between 1992 and 1995, or for a payment representing the current value of those shares.

It is the opinion of the Company and of the Company's legal counsel that on the basis of the facts which have been made known to them and on the basis of the documents in their possession, the Company and any Group company that may be joined as a defendant will be able to defend successfully any claim from the former consultant.

12. related party transactions

(a) Dowling Investments Limited ("Dowling"), a company under the control of the Rochford Trust, a Holberton family trust, has entered into an agreement with Pinette Investments (Pty) Limited ("Pinette"), to allow certain paintings, furnishings and art works Dowling owns to be made available to Pinette to furnish the property owned by Pinette in Cape Town. For use of the paintings, furnishings and art work, Pinette has agreed to a rental based on the interest accruing on the agreed total value of all items loaned with the applicable interest rate being the prevailing South Africa prime bank rate. The amount charged in rental in the period was \$16,219.

(b) Neil McDougall became a Director of the Company at the Annual General Meeting on September 15 1995. Mr. McDougall is a partner of the Company's South African attorneys, Francis Thompson & Aspden. All fees are charged on an arm's length basis. The amount payable to Francis Thompson & Aspden for the period was \$99,000 (including disbursements).



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13. subsequent events

(a) Since May 31 1996, stock options over 90,500 shares have been exercised with an amount subscribed of \$93,500.

(b) On June 5, 1996 the Company announced the private placement of 2,000,000 special warrants at \$8.50 each to raise additional equity of \$17,000,000. Each special warrant is exercisable for no additional consideration into one unit to consist of one common share and one half common share purchase warrant. Each whole common share purchase warrant will entitle the holder to purchase one additional common share for a period of one year as from June 26 1996 at a price of \$11.00. An Agent's commission of 5% is payable on the funds raised.

Under the terms of the private placement, the Company will qualify the units to be issued upon the exercise of the special warrants by a prospectus to be filed in those Canadian jurisdictions in which the special warrants are sold. If within 120 days after the closing of the private placement the prospectus is not cleared, investors will be entitled to receive 1.1 units, consisting of 1.1 common shares and 0.55 purchase warrants (in lieu of one unit) for each special warrant exercised.

The private placement was fully subscribed and was completed on June 26 1996.



auditors'

report

**the shareholders
namibian minerals corporation**

We have audited the consolidated balance sheets of Namibian Minerals Corporation as at May 31, 1996 and 1995 and the consolidated statements of loss and deficit, resource property costs and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with Canadian generally accepted accounting principles.

**Vancouver, British Columbia
July 12 1996**

Deloitte & Touche
Chartered Accountants



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UK. Tel: 44 171 824 8900 Fax: 44 171 824 8889

project office Nautical Diamonds (Pty) Ltd., Kildare House, Norwich Oval.
1 Oakdale Road, Newlands, Cape Town. 7700 RSA. Tel: 27 21 683 5577 Fax: 27 21 610 372

Arena Mining (Pty) Ltd., 96 Gloudina Street, Box 24857, Ludwigsdorf, Windhoek. 9000 Namibia.
Tel: 264 61 231 353 Fax: 264 61 249 253

canada office Suite 520, 800 West Pender Street, Vancouver. BC V6C 2V6 Canada.
Tel: 1 604 683 3309/0564 Fax: 1 604 683 1055

directors of namco Alastair Holberton *Chairman of the Board and Chief Executive Officer **

Mr Alastair Holberton (age 47) founded the Namco Group and has over 15 years mineral experience in Australia, Indonesia and Africa. Mr Holberton has held several executive positions including Managing Director of Europa Minerals plc, Director of TR Energy plc, Director of Burmine Ltd. and Director of Inver Trust NV. He is also the Chairman of the Interchange Group, an associate of the Bank of Ireland Group.

Charles Purdy *Director and Chief Financial Officer **

Mr Charles Purdy (age 38) joined the Namco Group in August 1993 and the Namco Board in October 1993. He is a Chartered Accountant, formerly with Coopers & Lybrand and Arbuthnot Latham Bank in London.

Howard Beck, Q.C. *Non-Executive Director **

Mr Howard Beck (age 63) is Chairman of the Board of Philip Environmental Inc. He serves as a Director of several Canadian public companies. Mr Beck was formerly Vice Chairman of Barrick Gold Corporation and the Horsham Corporation. He joined the Namco Board in June 1996.

Carlo Civelli *Non-Executive Director*

Mr Carlo Civelli (age 47) is the Managing Director of Clarion Finanz AG. Mr Civelli has specialised in venture capital financing for over 15 years. He is also a Director of Jordex Resources and Spatializer Audio Laboratories. Mr Civelli joined the Namco Board in October 1993.

Neil McDougall *Non-Executive Director*

Mr Neil McDougall (age 41) is a practising attorney and has been a Partner in legal firm Francis Thompson & Aspden for over 10 years. He specialises in commercial work and High Court litigation. Mr McDougall has acted as a Director and Trustee of various companies and trusts. He was appointed to the Namco Board in September 1995.

directors of subsidiaries

Roger Daniel *Project Director*

Mr Roger Daniel (age 47) joined Nautical Diamonds in September 1993. Mr Daniel is a geologist with over 25 years of practical mining, exploration and managerial experience. He has held several senior positions including geologist at Gold Fields, Director of Geology and Exploration at Golden Dumps and Executive Director of Dawn Diamonds.

Kombadayedu Kapwanga *Regional Director*

Mr Kombadayedu Kapwanga (age 43) joined Arena Mining in April 1995. Mr Kapwanga is a geologist and mining engineer with managerial experience having worked with Rio Tinto Zinc (UK), Rio Tinto Zimbabwe and Rossing Uranium. In 1990 Mr Kapwanga was appointed Director of Mining for the Ministry of Mines and Energy, Namibia. He was recently appointed to the Diamond Board of Namibia.



*Andrew Buxton Non-Executive Director **

Mr Andrew Buxton (age 61) has more than 30 years mining related experience. He is a Non-Executive Director of the Norwich Union Insurance Group and of Mercury World Mining Trust. He was formerly an Executive Director of RTZ and Deputy Chairman of Rossing Uranium.

Richard Hubbard Non-Executive Director

Mr Richard Hubbard (age 36) is a corporate financier specialising in leverage buyouts. He is a Director of Trinity Biotech.

*Peter Miller Non-Executive Director **

Mr Peter Miller (age 47) is President and Chief Executive Officer of KWG Resources and St. Genevieve Ltd. He spent 15 years working as a geologist on exploration projects in South Africa and subsequently as a mining investment analyst for eight years in London.

Sam du Plessis Non-Executive Director

Mr Sam du Plessis (age 59) was formerly Assistant Government Mining Engineer and Director of Mining Economics for the South African Department of Minerals and Energy Affairs.

* Denotes member of the Strategy and Review Committee

senior management

Hans Duijzers *Head of Marine Engineering*
Charlie Heyes *Offshore Manager*
Captain Sam Hunter *Shipping Manager*
Ivor Jones *Metallurgical Manager*
Marcus Waring *Senior Geologist*

advisors

Marine & Coastal Geo-Consultants *Marine Geologists*, South Africa
Professor Lawrence Minter *Senior Geological Consultant* Professor of Economic Geology, UCT, South Africa
Steffen Robertson and Kirsten *Consulting Mining Engineers*, UK

auditors

Deloitte & Touche *Chartered Accountants* Namibia and Canada

legal counsel

Charles Russell London, UK
Francis Thompson & Aspden Cape Town, South Africa
Tory Tory DesLauriers & Binnington Toronto, Canada
Webber Wentzel Johannesburg, South Africa

financial advisors

Investec Merchant Bank Ltd. Johannesburg, South Africa

brokers

Yorkton Securities Inc.
Simpson McKie James Capel (Pty) Ltd.

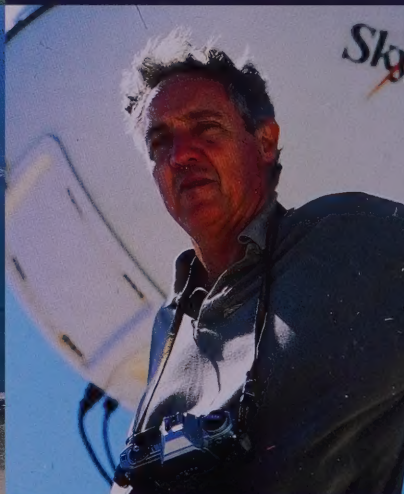
stock exchanges

The Namibian Stock Exchange (NMC)
The Vancouver Stock Exchange (NMR)
The Toronto Stock Exchange (NMR)

investor relations

Megan Williams *Head of Investor Relations*
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